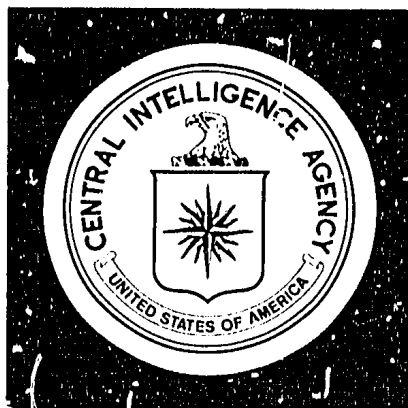


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Weekly Summary

Secret

No. 0031/75
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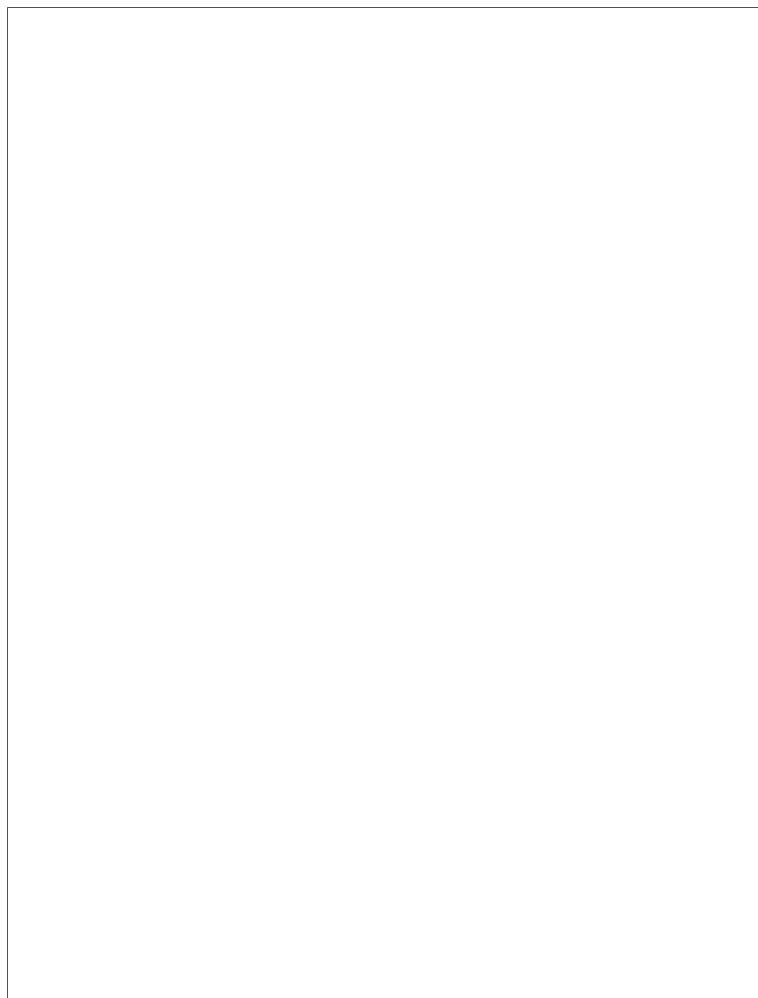
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The WEEKLY SUMMARY, issued every Friday morning by the Office of Current Intelligence, reports and analyzes significant developments of the week through noon on Thursday. It frequently includes material coordinated with or prepared by the Office of Economic Research, the Office of Strategic Research, the Office of Geographic and Cartographic Research, and the Directorate of Science and Technology. Topics requiring more comprehensive treatment and therefore published separately as Special Reports are listed in the contents.



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TURKEY: MOVES AGAINST US BASES

Turkey has declared it no longer considers its bilateral defense agreements with the US valid and has assumed control of all US-operated joint installations, following the refusal of the US Congress last week to lift the arms embargo. Ankara believes that the agreements establishing the bases have been abrogated by the US arms embargo.

detailing Turkey's long-range plans for the joint installations.

Turkey's ambassador in Brussels advised the NATO Council that the Demirel government hopes to reach a new agreement with the US that will not be subject to the "whims" of any ethnic power group in the House of Representatives. In the absence of any new agreement, Turkey has indicated that it expects NATO to help fulfill its arms requirements.

On Cyprus, Turkish Cypriot leaders, doubtless at Ankara's behest, placed additional restrictions on the US

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Turkish Cypriot officials are also likely further to limit the movements of US personnel in the rest of the Turkish Cypriot zone.

Negotiators for the Greek and Turkish Cypriot communities, meanwhile, began another round of intercommunal negotiations in Vienna yesterday. No major breakthrough is likely, although the Greek Cypriot side has apparently backed down from its insistence on a strong central government and will now concentrate on the territorial issue.

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Prime Minister Demirel has asked the Turkish General Staff to assume responsibility for redefining Turkey's defense relationship with the US. In so doing he reportedly hopes to avoid criticism by either the military leadership or opposition leader Bulent Ecevit, who has given grudging approval to the government's actions. The Turkish press and public have generally backed Demirel's decisions.

Demirel probably still hopes that an agreement can be worked out between the US and Turkey that would bring an end to the embargo or, at the very least, release arms already paid for by the Turks. Demirel has refrained from

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PORTUGAL: POWER TO TRIUMVIRATE

Political power—for the present, at least—has been transferred from the 30-man Revolutionary Council to a triumvirate composed of President Costa Gomes, Prime Minister Vasco Goncalves, and the head of the security forces, General Otelo de Carvalho. The new leaders have sharp philosophical and personal differences, however, and are not expected to deal effectively with Portugal's deepening problems at home and abroad.

In addition to giving formal approval to the triumvirate, the leftist-dominated armed forces general assembly at its meeting last week downgraded the formerly powerful Revolutionary Council to a purely advisory body. The assembly also reaffirmed its authority to appoint members of its own choosing to the council.

Realizing that their efforts to oust Goncalves had no prospect of success in the radical assembly, dissident council members boycotted the meeting and sent a message of protest. On Wednesday, however, the faction, led by Major Melo Antunes, attended a council session to discuss the new cabinet proposed by Goncalves. Because of the council's reduced status, it seems unlikely to exercise much influence over the new appointments, which are to be announced soon.

The council dissidents have apparently not decided on their next move. Lisbon has been filled with rumors of their resignations and possible arrest. One of the leaders of the dissidents, Major Vitor Alves, told a West European diplomat last week that they were planning to resign their posts on the council, retire to military units sympathetic to their cause, and work at the grass-roots level to isolate Lisbon from the rest of the country.

Meanwhile, the composition of the new ruling group has drawn immediate opposition from the country's democratic parties. The Socialist Party and the left-of-center Popular Democratic Party—which polled a combined vote of 64 percent in the constituent assembly

elections in April—denounced the new government structure as unconstitutional and a violation of an agreement signed last April between the parties and the Armed Forces Movement.

The Socialists have proposed as an alternative a "government of national salvation," to be headed by a nonpartisan member of the Revolutionary Council with recognized national stature. Socialist Party leader Soares also called for national reconciliation instead of the present divisive policies of the Movement. Such proposals, however, coming from a party which is increasingly playing an opposition role, are not likely to receive a hearing in Lisbon.

General Otelo de Carvalho's remarks on his return Wednesday from a visit to Cuba were scarcely responsive to calls for reconciliation. He said that the Movement has been too lenient with what he described as counter-revolutionaries, and he indicated that force may be used against them. He characterized the Socialists as the "greatest enemy of the left" and said the question of sending Soares into exile would be discussed with Movement colleagues. The position of General Carvalho, who already controls the security forces, has been strengthened considerably by his appointment to the triumvirate. He is also rumored to be under consideration for one of the two vice prime minister posts, and he could emerge as the most powerful man in Portugal.

Because of probably irreconcilable differences among the new leaders, it is unlikely that they will be able to make much headway in solving Portugal's mounting problems. The economy is unraveling at a rapid rate, growing numbers of Portuguese outside Lisbon are venting their anger at the Movement as well as at the Communists, the Azores are edging closer to a declaration of independence, and the struggle in Angola continues to cause grave concern. The new leaders appear to be on shaky ground, but it is not yet clear what, if any, forces will be able to marshal the strength to topple them.

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WESTERN EUROPE: ECONOMIC SUMMITS

French President Giscard and West German Chancellor Schmidt met in Bonn last weekend in the latest of their series of twice-yearly summit meetings. The two leaders regard their close personal relationship (rumor has it that Giscard phones Schmidt once a week) as the key to establishing closer economic cooperation among the EC Nine.

Their summit, a week after the meeting in Brussels of all EC leaders, was complemented by the visit of British Prime Minister Wilson to Hamburg last week. Economic issues dominated all these meetings and, although coordination of policies was not very specific, there was general agreement that the US must also be persuaded to take reflationary steps.

Giscard and Schmidt saw eye to eye on the seriousness of the recession in Europe and the necessity for government programs to stimulate the economy. Beyond that, there is no evidence that either side committed itself to initiate expansionary measures that were not already in the works. Wilson, for his part, welcomes the reflationary policies on the continent, but his government still intends to stress an anti-inflation program for Britain.

Giscard and Schmidt were apparently unable to reach full agreement on coordinating the timing of their programs. Nevertheless, starting early this fall, Bonn will spend an additional \$2 billion, aimed primarily at giving a boost to the hard-hit construction industry. Added to the \$15 billion government deficit already projected, this should provide some stimulus to the economy by year's end.

The French program apparently calls for some \$3.5 billion in additional government spending; it is not clear if the money will be spent this year. The infusion of government money would represent the strongest fiscal step taken by Giscard since the recession began, but it would still leave the government deficit small, relative to those in West Germany and the US.

The French-German summit revealed that differences still exist on approaches to international monetary policy, although Schmidt—

under the influence of Giscard—may be taking a more favorable view to fixed exchange rates, at least to the extent of countenancing "managed" floating. Paris' desire to return to a fixed exchange-rate system, with gold as the primary official reserve, has been the main bone of contention. The Nine will attempt to coordinate positions later this summer in preparation for the September session of the International Monetary Fund.

Schmidt has hitherto echoed the view of financial advisers that the present system of flexible exchange rates should be continued, given the dislocations in the world economy.

Schmidt is apparently still skeptical about Giscard's proposal for a summit of the major Western industrial countries on monetary matters, but he will support such a conference in return for Giscard's agreement that it would encompass economic policy coordination.

Preparations for another conference of oil producers and consumers received only cursory attention from Giscard and Schmidt. The two leaders devoted some time to the question of Arab attempts to oust Israel from the UN.

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As a public relations exercise, the summit was a success. Giscard and Schmidt have reaped domestic political benefits from their conspicuous efforts to coordinate their economic programs, as well as from their explicit emphasis on the leadership role their countries play in the EC. It remains to be seen whether such encounters between Giscard and Schmidt—the self-styled "motors" of European integration—will in fact contribute materially to united action by the EC as a whole. Some of the smaller EC members, for example, have already insisted that the Community should be represented at any summit dealing with international monetary problems, so that their interests will be protected.

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ITALY: FACTIONAL FEUDING

Italy's Christian Democrats emerged in disarray from their lengthy National Council meeting last week, failing to make any final decisions on policy changes or on a replacement for former party chief Fanfani.

The Christian Democrats found it much harder to settle on a successor to Fanfani than to reach agreement on his ouster. His fall was engineered through an agreement by centrist and left-wing factions to vote against him in a confidence vote last week. That alliance fell apart, however, when debate turned to finding a replacement.

When none of the major candidates could muster a majority, the council tapped its president—63-year-old Benigno Zaccagnini—to occupy the party secretaryship temporarily. Zaccagnini has since announced that he will remain in office only until the party congress, which will probably be held in November. As a result, the Christian Democrats will be preoccupied in the coming months with trying to line up a majority of the factions behind a new party leader.

The party left may enjoy some advantage in the maneuvering because Zaccagnini belongs to the faction headed by Prime Minister Moro, the left's most influential leader. The left is more inclined than the other factions to grant the Socialists increased governmental influence and to take a less intransigent attitude toward the Communists, at least at the local level.

By choosing only a temporary leader, the Christian Democrats bought additional time to settle differences among themselves, but they probably did more damage to their public image. The fact that the party could not close ranks in the face of its most serious postwar challenge—the Communists' unprecedented gains in the regional and local elections last month—will strengthen doubts among many Italians about its ability to deal with the country's mounting problems.

The lengthy and inconclusive battle over a replacement for Fanfani left the Christian

Democrats little time for serious consideration of policy questions. One issue they will have to address eventually is the Socialist Party's insistence on closer relations between the government and the Communists. The Socialists' central committee last weekend unanimously supported party chief De Martino's stand opposing any future national government that does not have "at least indirect" Communist support.

De Martino suggested that Communist abstention in a confidence vote on a new government might be an acceptable formula for such support. If the Christian Democrats agree to such a formula, it will be seen in Italy as a first step toward broader collaboration with the Communists that could lead eventually to their participation in the national government. Socialist entry into the government was preceded by a similar arrangement in 1962.

The Communists have not commented officially on De Martino's proposal. In any event, they would want to avoid the appearance of tacitly condoning the same kind of government they attacked in the recent election campaign. They might agree to provide such indirect support if the Christian Democrats made some concessions—such as holding formal consultations on the government's program—that would clearly recognize the Communists' potential as a partner in government.

The Socialist Party chief also won his party's backing for continuing efforts to maintain working relations with the Christian Democrats. With the exception of a small left-wing faction, the Socialists endorsed De Martino's rejection of any return at the national level to a "frontist" alliance with the Communists.

Some Socialists had been talking about a revival of the "frontist" alternative after last month's regional and local elections had led them to conclude that the Socialists and Communists might win a majority in a national contest. Although the two parties govern together in many localities, De Martino—and the Communists—are against trying it at the national level.

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GREECE: AIR FORCE FLYING HIGH

The Greek air force has improved its overall combat capability substantially since the Turkish invasion of Cyprus a year ago. The inability of the air force to assist Greek forces fighting on the island and the ensuing personnel purges had badly damaged morale. [REDACTED]

[REDACTED] however, that the introduction of large quantities of modern aircraft and other equipment, effective leadership, and a new sense of mission have restored confidence.

Two new squadrons of US-built F-4E fighter-bombers, 35 aircraft in all, have recently become operational. The Greeks have also ordered 60 US-built A-7H attack aircraft, 12 C-130 transports, and 40 French-built Mirage F1-C all-weather interceptors. The initial cadre of pilots and support personnel have just completed their training on the A7s and F1s, and the first deliveries of both aircraft are scheduled for August. The first C-130 will arrive in September.

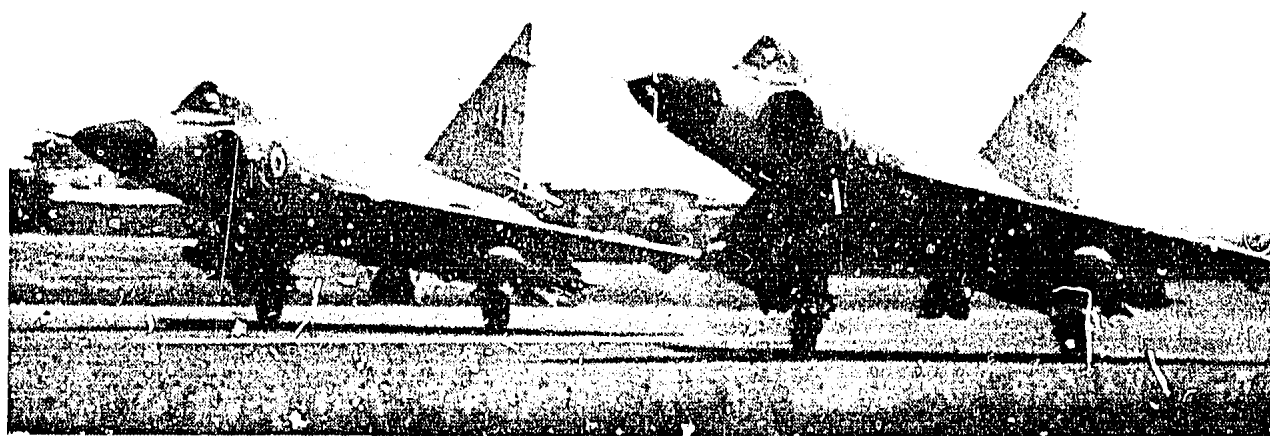
By late 1977 all of these aircraft are to be in operational units. The F-4Es and the A-7Hs eventually are to replace all of Greece's obsolete F-84 attack aircraft, and the Mirage F1-Cs will replace aging F-102 interceptors. The C-130s will greatly improve the air force's transport

capabilities, which are limited because of obsolete and less capable aircraft.

The addition of the new aircraft will enable the air force to support combat operations in the Aegean islands more effectively. The A-7Hs, which are to be assigned to Crete, will give the Greeks a better but still limited capability to fly attack and close air-support missions over Cyprus.

[REDACTED] because the air force leadership no longer has a desire to be heavily involved in politics, it is much more effective and has begun to inspire a high degree of loyalty from within the ranks. In his view, the overall combat readiness of the air force now approaches the optimum possible within the limits of available resources. Crews are fully trained, and equipment is maintained in a combat-ready status.

War planning staffs are said to have been increased threefold and to be manned with the best talent in the air force. New missions and strategy are evolving, as the air force perceives a possible Turkish invasion of Greek islands off the Turkish Aegean coast as the prime threat to Greece's security. The air force does not believe Greek naval and ground forces alone can mass



Greek F-102 interceptors

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enough firepower to deter a Turkish move against the islands. Thus, it expects to have major responsibilities in interdicting sea communications, bombing ports and staging areas, and providing close air support of ground forces.

Despite its improved outlook, the air force has serious problems. For the next several years it will be saddled with large numbers of obsolete aircraft which will become increasingly harder to maintain. The air force already suffers from a shortage of fully trained technicians and has placed many of its more highly skilled personnel in training programs for the new aircraft. Maintenance of existing aircraft consequently will suffer. [redacted] the air force's

major problem over the next few years will be to maintain maximum combat readiness in existing units while introducing the new A-7s and F1s.

Ankara, meanwhile, is viewing the Greeks' growing air combat capability with increasing concern, especially since its own air force can no longer get new US aircraft and the spare parts necessary to keep its present inventory operational. Should the Turks continue to have problems in acquiring new fighters and spare parts for their present aircraft during the next two years, they may well find their air force over-matched by the Greeks in the Aegean. [redacted]

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USSR: SOYUZ 18 LANDS

The two Soyuz-18 cosmonauts returned to Earth July 26 after 63 days in space. The mission was the longest Soviet manned space flight so far, but it was short of the 84-day US record set last year by the crew of Skylab 4.

After more than two months aboard the Salyut 4 orbiting laboratory, cosmonauts Pyotr Klimuk and Vitaly Sevastyanov boarded their Soyuz-18 space capsule for the return flight. The landing took place in near darkness in central Kazakhstan near the spot where the Soviet crew of the Apollo-Soyuz Test Project touched down on July 21. Tass reported that a recovery team was present to assist Klimuk and Sevastyanov from their spacecraft and that a preliminary medical examination indicated the two were in good health.

The landing was not broadcast live. Instead, a videotape was shown approximately one hour after touchdown, possibly indicating that the Soviets are reverting to the policy of relative secrecy that characterized their space

program prior to the Apollo-Soyuz mission. Only Klimuk was shown emerging from the capsule. The videotaped coverage ended abruptly without showing Sevastyanov. It is believed that both cosmonauts were suffering from a loss of equilibrium caused by extended weightlessness in space, even though both men received physiological conditioning aboard Salyut 4 through the use of a special pressure suit and treadmill exercises.

During their mission, the cosmonauts conducted a number of scientific, technical, and medical experiments including celestial photography, solar observation, and earth resources survey (ERS) photography.

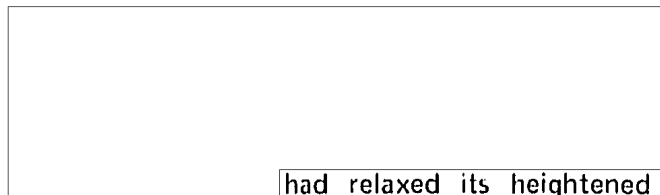
The Soyuz 18 cosmonauts are the second crew to occupy the Salyut 4 space station, which has now been in orbit for more than seven months. Because there is only about seven to ten days' oxygen supply remaining aboard Salyut 4, the space station will probably not be reoccupied and may be deorbited within the next few weeks. [redacted]

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SECRET**EGYPT-ISRAEL: ALERTS RELAXED**

Egypt and Israel both relaxed their alert postures last week as tensions eased in the wake of Cairo's decision on July 23 to extend the UN mandate in the Sinai.



had relaxed its heightened readiness condition. He said that Egyptian forces were resuming training and that leaves for Egyptian military had been reinstated.

Gazit complained, however, that Cairo had been violating the disengagement agreement. He contended that Egyptian forces on the east bank of the Suez Canal totaled some 15,000 to 20,000 men and some 41 tanks and 40 artillery pieces, well over the 7,000 troops, 30 tanks, and 36 pieces of artillery permitted under the disengagement agreement. Gazit added that the Egyptians had also increased their antitank and light artillery capabilities on the east bank, but he did not say this was in violation of the agreement.

Tel Aviv claimed that some of the Egyptian buildup had occurred prior to the latest Middle East crisis, but that a good portion had happened in the few days immediately prior to Egypt's extension of the UN mandate. Gazit said Israel had complained to UN authorities about the excess Egyptian tanks but not about the excess number of troops because of the difficulty in proving that claim.



shared the spotlight in Tel Aviv last week with the ongoing negotiations for another agreement in the Sinai. Israeli officials have linked the two issues.

Foreign Minister Allon told the Knesset 25X1 last week that Israel would have to "reconsider" its policy toward UN activities, if the Arabs succeeded in their anti-Israel campaign. He pointedly cited the extensive UN involvement in the Middle East, ranging from peace-keeping forces to refugee relief programs. Allon warned that Israel will act toward the UN on the basis of "reciprocity," should it undermine Israel's membership rights.

The foreign minister reiterated this position even more forcefully in an interview on July 29, saying he would ask the government to order a suspension of UN activities in Israel and would oppose UN participation in Geneva peace conference activities if Israel were suspended from the General Assembly. Allon did not specifically refer to the UN peace-keeping forces, but he is said to believe that Israel's cooperation with them could be affected. The more conservative Defense Minister Peres, however, drew a direct connection, telling interviewers that Israel could hardly be expected to reach any agreement involving UN participation if it were not a UN member.

Some Israeli commentators are calling on Tel Aviv to pull out of the UN to avoid the humiliation of further attacks. Despite Tel Aviv's disillusionment with what it regards as the UN's consistent pro-Arab bias, however, Tel Aviv has decided to fight hard to keep its delegation in the General Assembly. The government has launched a major diplomatic and public relations effort which Allon thinks stands a chance to block the Arab campaign.

ISRAEL-UN: FIGHTING BACK

The Arab campaign to deny Israel a seat at next month's UN General Assembly session

Egypt has adopted an ambivalent position on the UN issue. it is reluctant to buck the tide of Arab opinion and would like to hurt Israel politically. In a press conference in Khartoum

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Foreign Minister Allon

last weekend, President Sadat argued that Israel's continued UN membership is more advantageous to the Arabs because the Israelis are thus under some obligation to adhere to UN resolutions. He added, however, that if Israel continues to procrastinate on implementing these resolutions, Egypt will "have no choice" but to go along with the call for its expulsion.

At the OAU conference in Kampala, the Egyptians have made a fine distinction between expulsion and suspension, on the rather obscure grounds that a call for suspension is somehow more moderate. The Egyptians worked to tone down an OAU ministerial resolution advocating expulsion by substituting a call for suspension, but they apparently fail—or simply refuse—to recognize that the effect on Israel will be the same. [REDACTED]

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ISRAEL-USSR: EXPULSION DILEMMA

The Soviets are treating gingerly the Arab moves to suspend Israel from the UN, and they obviously hope they will not have to vote on the issue at the UN General Assembly.

Soviet media have alluded only briefly to the Arab proposal and have avoided formulations that could be read as supporting it. The Soviet press, for example, only belatedly reported that the Islamic conference in Jidda had called for Israel's suspension.

Moscow would prefer to avoid having to take a public position on the issue. A Soviet vote to oust Israel would contradict the "even-handed" image Moscow has cultivated as part of its campaign to win a role in the Middle East peace negotiations. Support for Israel's ouster would also add an unnecessary complication to Soviet relations with the US. On the other hand, opposition or abstention on this issue would damage Soviet standing in the Arab capitals. [REDACTED]

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NIGERIA: COUP OUSTS GOWON

Brigadier Murtala Mohammed, a 37-year-old Hausa tribesman, became chief of state and head of the armed forces following a bloodless military coup on July 29 that overthrew General Gowon's nine-year-old regime. The carefully staged coup—Nigeria's third since independence in 1960—took place while Gowon was attending the OAU summit in Kampala and met with no overt opposition. The coup took place on the anniversary of the coup in 1966 that later elevated Gowon to office. Mohammed played a key part at that time.

This latest coup brought to power a group of relatively senior staff officers, troop commanders, and other officers who had become disenchanted with Gowon's lack of firm leadership and their own exclusion from policy-making positions. The US embassy's preliminary view of Mohammed, whose degree of power is unclear at this point, is that his personality and background could undercut Nigeria's internal stability. He is [redacted]

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[redacted] more openly identified with Nigeria's Muslim north than with the country at large.

In his first speech Wednesday, Mohammed did not talk about any sweeping changes in basic policies. Instead, he said, his regime would strive for more efficient government, implying it would vigorously attack Nigeria's outstanding problems. On balance, the embassy feels the regime is favorably disposed toward the West, and no abrupt changes in general US-Nigerian relations are expected. The embassy does not sense any basic shift in Nigeria's oil policies, but does believe it will take a more strident stand on southern African issues.

Mohammed, in a thorough housecleaning, quickly announced the appointment of a new 22-man Supreme Military Council along with new service chiefs, state military governors, and divisional commanders. Former cabinet ministers have been dismissed, and a shakeup of senior civil servants is expected. The new cabinet should be named soon. Gowon and all senior army and police officers who served with him have been retired. Mohammed has declared

that Gowon will be free to return "as soon as conditions permit."

Gowon stated in Kampala on Wednesday that he accepts the coup, and he called on Nigerians to support the new regime for the sake of national unity. Gowon's prestige had sagged among both soldiers and civilians over the past six months because of his government's seeming drift in the face of accumulating economic problems such as inflation and commodity shortages. Gowon's procrastination in replacing Nigeria's 12 state governors, a move sought by aspiring middle-grade officers, also helped spur the coup.

Although Nigeria's new rulers project an activist image, their background suggests they may be no better equipped to deal with the country's complex economic problems than was the Gowon regime. They lack experience in governing and may fall back on strong-arm measures in hopes of producing quick results.

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Murtala Mohammed

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ETHIOPIA: URBAN LAND REFORM

The ruling military council took another step toward fulfilling its promise to bring about "Ethiopian socialism" when it announced a sweeping urban land reform program on July 26. The program could further alienate large groups of the population and, more importantly, the army.

The program calls for nationalization of almost all urban property; individuals and families will be allowed to own only one house and about one-eighth acre of land. Private owners will be forbidden to earn rent from urban land or houses after August 7. On that date all agreements between landlords and tenants will be terminated. City dwellers' associations, headed by government officials, will be set up to collect rents and administer other aspects of the program.

Nationalization is sure to stir more opposition to the council from the still politically potent middle class, which includes many military officers who own urban property. Thus far, the economic interests of most of the middle class have not been seriously damaged by the council's policies.

Expecting that its action might trigger widespread disorder, the council reinforced and

placed on alert the security forces in Addis Ababa when the program was announced. The capital nevertheless remained calm.

The council's authoritarian rule and socialist policies, particularly rural land reform, have already cost it the support of large segments of the population and strained its relations with most army units. The urban land nationalization program could pose a severe test of its ability to survive.

Government forces and rebels in Eritrea Province, meanwhile, have engaged in several sizable clashes in recent weeks in addition to continuing low-level skirmishes. On July 17 a large engagement took place south of Asmara when rebels ambushed four truckloads of government soldiers; over 60 soldiers were killed. Government forces and rebels fought a running battle about seven miles west of Asmara between July 22 and 24. Government aircraft supporting the operation bombed and strafed a village.

In Asmara, government security forces reacted indiscriminately to the killing two weeks ago of four government informers by rebel assassination teams. In reprisal the government forces reportedly killed over 60 Eritreans,

Eritrean rebels



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mostly young males seized at random off the streets. Troops reportedly also killed a large number of civilians in a raid on a northern suburb late last week. Heavy firing broke out sporadically; stringent security precautions, designed to restrict the movement of rebels and their sympathizers, are in effect.

The whereabouts of the two Americans and four Ethiopians kidnaped by the rebels [REDACTED] on July 14 is still unknown. The rebels have made no demands for their release; they may intend to make use of the them to repair a transmitter located in western Eritrea. [REDACTED]

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ANGOLA: CIVIL WAR CONTINUES

Fighting between the National Front for the Liberation of Angola and the Popular Movement for the Liberation of Angola is spreading across much of the northern part of the territory. The transitional government appears to have broken down completely, and there is little chance that it can be put back together in the near future.

During the past week the fighting between Angola's two principal liberation groups has intensified, with clashes taking place in a number of towns where neither group is predominant. Reports reaching Luanda are contradictory and often out of date; some towns reportedly have changed hands several times.

So far, the National Front has made no attempt to take Luanda, from which it was forced to withdraw in mid-July after almost a week of intense fighting. Nevertheless, the Front is consolidating a major force at the important junction town of Caxito, where the capital's water supply and power lines are located. The Popular Movement is attempting to isolate the Front there; it has destroyed at least one major bridge leading out of the town and is mining all the main roads. As long as the Front holds Caxito, however, it is in a good position to try to negotiate its return into Luanda.



In Luanda, friction between the Portuguese armed forces and the Popular Movement is increasing. Last weekend several Popular Movement troops fired on a Portuguese commando unit; the Portuguese retaliated by attacking the Movement's headquarters. The Popular Movement has refused to surrender the troops involved and is demanding that all Portuguese forces be withdrawn from the territory. The Portuguese already have pulled most of their troops out of the countryside. The Portuguese military commander and the High Commissioner are trying to remain neutral.

Portuguese officials in the territory have no idea of how to stop the fighting which has been going on for several weeks and has produced a political vacuum in Luanda. They do not want to risk a military escalation by committing Portuguese troops to restore order, and they may not be sure the troops would intervene if ordered. Officials in Lisbon, preoccupied with their own political struggles, cannot turn their attention to Angola.

The Popular Movement and the National Front seem determined to secure military dominance through a war of attrition—with no political solution in sight.

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CUBA: A MODERATE CASTRO

Fidel Castro's failure to direct brickbats at either the US or the Organization of American States during his traditional speech on July 26—Cuba's national day—can be attributed to his interest in promoting detente and his desire for access to US trade and technology. Apparently having decided to avoid pointless obstacles to an improvement in bilateral ties with the countries of the Western Hemisphere, and with the US in particular, Castro chose "safe" topics for his speech: events in Portugal, domestic economic progress, and a proposed redefinition of Cuba's political-administrative boundaries.

Castro still has no intention of rejoining the OAS, but he realizes that the US has tied a change in its economic denial program to elimination by the OAS of its sanctions against Cuba. Now that the OAS has taken this step, Castro would like at least to get the ball rolling toward Cuban-US rapprochement prior to 1976, because he does not believe progress in this direction is likely in an election year.

In years past, Castro would not have hesitated to use the occasion as a springboard for an attack on the OAS just prior to one of its meetings. He understood the sharp division within the OAS on the Cuban sanctions question and presumably hoped in the past that his verbal blasts would intensify debate, polarize attitudes, and provoke the organization's disintegration. He apparently now realizes that he underestimated the OAS' durability and, rather than work vainly for its destruction, has decided at least for the time being to ignore it. A reassessment of his position with the benefit of hindsight may have taught him that with a less aggressive, less negative policy toward the OAS he might have been relieved of its sanctions some time ago and could have been taking advantage of the commercial and diplomatic opportunities their lifting would provide.

With the OAS sanctions no longer formally in effect, Castro will be watching the US closely to pick up any sign of a change in the economic denial program. Should any portion of the so-



Fidel Castro

called blockade be lifted, he most likely would respond quickly with a gesture—possibly the release of some US citizens jailed on political charges—intended to maintain movement toward eventual negotiations. He sees the post-sanctions period as having great potential for important foreign policy gains in several directions and, while watching the US, will also work to resume diplomatic relations with such prospective allies as Ecuador, Honduras, and Costa Rica. Cuba's presence at the current meeting in Panama to create the Latin American Economic System will provide an immediate

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opportunity for initial contacts aimed at restoring formal ties.

Sharing the dais at the national day celebration with Portugal's General Otelo de Carvalho, Castro paid the expected tribute to the government in Lisbon and lauded the general as a hero of the Portuguese revolution. A high Cuban military delegation has just returned from Lisbon on a reciprocal visit.

Castro devoted the remainder of his address to domestic matters, salting his remarks liberally with statistics that gave a favorable impression of gains in productivity but revealing nothing of particular significance. His announcement that Cuba's six provinces are due for redefining was not unheralded; the draft constitution published earlier this year specified that political-administrative subdivisions would consist only of regions and municipalities. The new boundaries are probably still in the drafting stage and will not be ratified until the first party congress in December. Because the party's structure also is based on these boundaries, the redefining process will have some political impact; the six present provincial party bosses will be replaced by 15 to 30 regional chiefs, while the current 59 regional posts will be abolished. 25X1

PANAMA: ECONOMY HOLDING UP

Panama's economy, although less buoyant than in recent years, is apparently sound enough that the Torrijos government is under little pressure to make concessions to speed negotiations on a canal treaty.

Economic growth this year will probably come close to the 3.5 percent of 1974, well below the 6- to 8-percent rates common in the past decade. Activity has been increasing sharply in the Colon Free Zone and in the banking sector. Bank assets increased 80 percent in 1974, and net bank holdings of foreign reserves doubled.

The government's credit situation, which was shaky in the early 1970s when much capital spending was financed by short-term borrowing, has been reorganized and strengthened. Debt service has dropped from 30 percent of the budget in 1973 to 24 percent this year. The government has restrained current spending while continuing capital spending on major construction projects and should have no difficulty covering a possible small unscheduled operating deficit this year.

The leadership has forecast a smaller current account deficit this year. Banana exports, down last year as a result of the controversy with the US-owned banana companies, have recovered. Sales of refined petroleum products, Panama's leading export, are up, helping to offset higher costs of imported crude oil. The \$19.3 million already received this year in oil rebates from Venezuela and the \$41 million expected from the International Monetary Fund's oil facility will further improve the foreign account balance. 25X1

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SECRET**PERU****Independence Day Moderation**

In his first public address since his illness last February, President Velasco on July 28 delivered a relatively moderate 90-minute speech marking Peruvian Independence Day. The US embassy in Lima commented that Velasco's diction was less clear than in the past, but that his voice gained strength as he spoke. There was no indication that the President intends to give up the position he has held for nearly seven years, or that he plans to assume a purely ceremonial role. Despite earlier rumors, no cabinet or other personnel changes were announced.

Velasco focused on domestic issues, singling out "various communist groups" and the American Popular Revolutionary Alliance for special treatment. He repeated the regime's standard "neither capitalist nor communist" line, but his remarks that both the Alliance and the communists are incompatible with the military's goals were more forceful than in past speeches.

The President's repudiation of communist groups reflects his personal distrust of the Peruvian Communist Party. In addition, his remarks probably were designed to allay the fears of more moderate officers who are increasingly concerned over leftist influence in the government. At the same time, Velasco issued a clear warning to civilian politicians that their parties have no place in the revolutionary government.

Recent press reports alluding to Peru's arms buildup and the possibility of a conflict with Chile drew presidential fire. Lima is extremely sensitive to such charges, however vague, and the President took the opportunity to assure the world that Peru would not be an aggressor against Chile. Velasco stated that Peru fully understands Bolivia's need for an outlet to the sea, but he cautioned that such access must be provided "within the norms of international law." This presumably is a reference to the 1929 treaty between Chile and Peru, which obligates each to obtain the other's consent before ceding

to a third party territory formerly under the other's control.

Velasco also took the occasion to deny that there are Soviet military bases or Communist military advisers in Peru. Nevertheless, it is unlikely that this signals any change in Lima's policy of accepting Soviet arms, if the price is right and the equipment unavailable elsewhere.

President Velasco did not dwell on economic issues, a fact not surprising in light of the recent unpopular lowering of government subsidies on many consumer goods. Velasco blamed "imported inflation" for Peru's economic ills and promised that the situation would ease next year. He also touched on the expropriation last week of the large US-owned Marcona Mining Company.

The Marcona Expropriation

The announcement of Marcona's nationalization came after months of deliberation. Statements by government leaders since the take-over reflect an apparent lack of agreement within the government over compensation. The minister of mines has taken the hardest line, seemingly ruling out any payment. The President's Independence Day speech, however, was much less hostile. Peru claims that Marcona owes the country approximately \$37 million. There is a wide divergence between Marcona's valuation of its Peruvian holdings and the government's assessment.

Prior to last week's expropriation announcement, Peruvian officials had sought assurances from Japanese steelmakers, Marcona's principal customers, that they would continue to buy ore from the new state company, Hierro Peru. The Japanese, however, have expressed doubts about the ability of the Peruvians to maintain the quality of the ore and timeliness of the shipments without Marcona's personnel. Japan is not heavily dependent on Peruvian ore, which makes up only about 4 percent of its imports. The expropriation has heightened concern by Japanese and other foreign investors over the investment climate in Peru.

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SECRET**USSR-SOUTHEAST ASIA****Blocking China**

Since the communist victories in Indochina, the USSR has quietly and persistently engaged in an effort to shore up its position in Southeast Asia. The Soviets' primary concern is that China will move into the void left by the US departure. They recognize that in most countries of the area they have less going for them than Washington, Peking, or Tokyo.

The general Soviet approach has been to fan suspicions of Peking. In this regard, Moscow views Washington's influence in the region as having some benefits, and therefore it has not worked actively against a continuing US presence. Indeed, there have been times when Soviet officials have discreetly encouraged it.

Bilaterally, the Soviets have used familiar tactics, courting Southeast Asian leaders with invitations to visit the USSR and offers of military and economic assistance. The Southeast Asians see some value in having reasonably cordial ties with the Soviets as a counter to the Chinese, but they will not risk raising Peking's hackles by leaning too far toward the USSR.

Moscow has had more success in Vietnam, where the USSR has an advantage over the Chinese because it was quick to provide the Vietnamese and Lao communists with the diplomatic support and aid needed to consolidate their recent victories. The Soviets probably will continue to enjoy better relations with Hanoi than the Chinese, but this will not buy them much because North Vietnam, as other Southeast Asian nations, cannot afford to provoke Peking. In an effort to keep Chinese influence in check, Moscow has encouraged the US to hang on in Laos and has offered to help the US establish a relationship with North Vietnam.

Dusting Off Collective Security

In order to show that it has something to offer, the USSR has dusted off its six-year-old

proposal for an Asian collective security system. Over the past two three months the Soviets have made low-level demarches to all Southeast Asian governments—and even to British officials in the area—to generate support for a security conference similar to that being held this week in Helsinki.

The results of these efforts have been uniformly negative, as the Soviets undoubtedly anticipated they would be. They will probably continue to plug for Asian collective security, however, because it is a useful device for testing Asian attitudes toward the USSR. Moreover, the generalized pledges of national independence and regional cooperation that are part of the Soviet proposal provide a propaganda counter to Chinese charges that Moscow seeks hegemony over Asia. [REDACTED]

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SINO-SOVIET TRADE AGREEMENT

Moscow and Peking finally got around to signing their 1975 trade agreement last week. The announcement of the agreement did not state either the nature of the goods to be exchanged or the value of the trade to be carried out.

[REDACTED] negotiations took longer than normal this year because the two sides agreed to switch from using artificially low prices—fixed in 1958—to present world market prices. If the value of this year's trade remains at the level of recent years, approximately \$280 million, it will mean a substantial reduction in the volume of goods exchanged. [REDACTED]

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CAMBODIA: CRACKS IN THE SHELL

Meeting with the Thai

A few cracks are beginning to appear in the shell of Cambodia's self-imposed isolation. Low-level Cambodian communist and Thai officials recently held a meeting near the Thai border town of Aranyaprathet—on Cambodian initiative, according to a Western press account. The meeting was attended by a Thai district official, who was in contact with the Ministry of Interior. The Cambodian side was represented by a former teacher who told a reporter that he was a trade representative appointed by the "military committee" in Phnom Penh.

The two sides are said to have discussed resumption of trade and diplomatic relations,

opening of the border, and future meetings between Cambodian and Thai representatives. Border contacts involving trade have taken place in the past, but this is the first instance of discussion of broader issues. Phnom Penh may be trying to relax the situation along the border and expand trade in order to alleviate its supply shortages, particularly in the northwest.

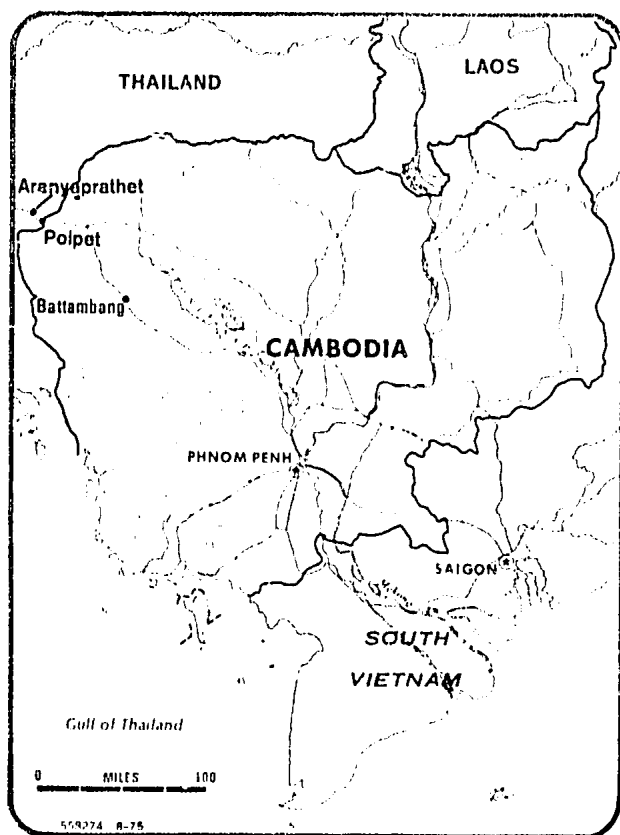
BORDER CONTACTS INVOLVING TRADE HAVE TAKEN PLACE IN THE PAST, BUT THIS IS THE FIRST INSTANCE OF DISCUSSION OF BROADER ISSUES. PHNOM PENH MAY BE TRYING TO RELAX THE SITUATION ALONG THE BORDER AND EXPAND TRADE IN ORDER TO ALLEVIATE ITS SUPPLY SHORTAGES, PARTICULARLY IN THE NORTHWEST.

Phnom Penh radio has apparently endorsed the meeting, stating that the "best atmosphere ever" now exists for good relations between the two countries. The broadcast also spoke of traditional coexistence between Cambodia and the "brotherly" peoples of Vietnam, Laos, and Thailand.

Although a Thai Foreign Ministry official, in commenting on the meeting to a US embassy official, cautioned that the press account had exaggerated the significance of the contact, he said his ministry would study the results. If the meeting, as the press claimed, came at the initiative of Phnom Penh rather than from local officials, it could lead to the development of a more formal, higher level dialogue.

The chances of an early resumption of diplomatic relations, however, are probably nil. The Cambodian communists are almost certainly not prepared to move in this direction until the new governmental structure is decided upon and relations with major allies are formalized.

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SECRET**KOREA-JAPAN: IMPROVED RELATIONS**

Japanese Foreign Minister Miyazawa's two-day trip to South Korea last week—in doubt until the last moment—helped clear the troubled atmosphere between the two countries.

The South Koreans also urged Tokyo to back a UN strategy tacitly linking the applications of the two Vietnams with those of the two Koreas.

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Despite the improved atmosphere, friction remains. Tokyo has yet to make a current, definitive statement on the connection between Japanese and South Korean security. While noting that Seoul's security is "of course" important to Tokyo, various Japanese officials are saying that the security of the entire peninsula is equally important—a modification that prepares the ground for increased dealings with Pyongyang.

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While in Seoul, Miyazawa

agreed to hold a formal ministerial meeting with South Korea in September. This conference, held up over a year and a half by the Kim incident, has taken on considerable symbolic importance for Seoul. A number of bilateral issues, including economic aid for South Korea, may be resolved at the conference.

Shortly after Miyazawa visited Seoul, Kim Il-song for the first time personally received a delegation of Diet members from Japan's ruling Liberal Democratic Party. Earlier, one of Prime Minister Miki's associates was reported to have conferred with Kim at length and to have discussed trade issues with other North Korean officials. The South Koreans will remain sensitive to any increase in economic or unofficial links between Tokyo and Pyongyang.

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South Korean officials were aware that Miyazawa and Prime Minister Miki will soon be discussing Korean subjects in Washington. South Korean President Pak emphasized to Miyazawa the need for US-Japanese-Korean cooperation.

Recognizing that a greater Japanese defense effort is not possible, Pak urged closer political cooperation, to which Miyazawa agreed in principle. Specifically, the South Koreans pressed the Japanese strongly for support of South Korean membership in the UN. Japan is chairing the Security Council this month, when Seoul's application for membership will be considered.

SOUTH KOREA: MILITARY SPENDING

The South Koreans are continuing efforts to develop a more self-sufficient defense force, securing arms from more broadly diversified sources of supply at home and abroad. President Pak is counting on the economic strength of South Korea by 1980 to permit the acquisition of the best available weapons at the best price.

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South Korea has recently revised its force modernization plan, which now calls for spending \$2.5 to 3 billion for new weapons systems over the next five years. The plan will be funded by the recently enacted defense tax. It is expected that the defense budget next year will be almost double that of this year.

According to South Korean officials, the defense-tax funds will be used for force improvement and weapons procurement, with the latter being divided equally between overseas and local sources. Domestic production or co-production is to concentrate on artillery, tanks, and helicopters. Overseas procurement is

to be mainly from US sources, if terms are sufficiently favorable. Otherwise, the Koreans have hinted, they will approach other countries.

The South Koreans reportedly hope to finance their weapons purchases from abroad by short-term loans, with the defense tax providing funds to repay the loans by 1980. The finance minister hopes that foreign exchange expenditures for weapons will be minimized until 1978, when the balance-of-payments situation is expected to improve. Any major foreign arms purchases in the near future, however, are likely to aggravate already serious trade deficit difficulties.

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